F. W. Woolworth Co.

Annual Report 1978

FOR THE FISCAL YEAR ENDED JANUARY 31, 1979

Woolworth

Woolco

Kinney

Richman

WOOLWORTH INTERNATIONAL

F. W. Woolworth Co.

is a growing multinational retailer distributing general merchandise through 5,787 retail stores and leased departments in the United States and other countries.

PROFILE OF THE COMPANY

STORE RECORD

Profile	Operations	Retail Units: In Operation Jan. 31 1978	Opened 1978	Closed 1978	In Operation Jan. 31 1979	Planned Openings 1979
Woolworth stores are located in the United States, Puerto Rico, the U.S. Virgin Islands, Canada, Germany, Mexico and Spain. Merchandise selections vary by country and by store size within any country.	United States, Puerto Rico and U.S. Virgin Islands	1,458	13	57	1,414	10
	Canada	212	1	8	205	3
	Germany	197	2		199	7
	Mexico	24			24	
	Spain	8		1	7	
	Total	1,899	16	66	1,849	20
Woolco stores are located in the United States and Canada. Woolco stores are full-line discount stores. In addition, Woolco catalogue stores are operated by Woolworth's Canadian subsidiary.	United States	274	20		294	25
	Canada					
	Stores	95	5		100	8
	Catalogue	14		4	10	
	Total	383	25	4	404	33
Kinney stores are located in the United States, Puerto Rico, the U.S. Virgin Islands, Canada and Australia. Leased departments operate in the U.S. and Canada. Family shoe stores are Kinney's principal business. It also operates stores named Susie's Casuals specializing in misses' sportswear; a growing chain of stores named Foot Locker specializing primarily in athletic footwear; a number of shoe stores using the names Lewis, Mankind and Fredelle in Canada and Williams in Australia. Manufacturing is performed in 11 factories.	United States, Puerto Rico and U.S. Virgin Islands					
	Stores	1,406	163	11	1,558	200
	Leased departments	233	21	12	242	27
	Canada and Australia					
	Stores	300	35	19	316	58
	Leased departments	96	8	1	103	8
	Total	2,035	227	43	2,219	293
Richman stores operate in the United States under the names of Richman or Anderson-Little. The stores are principally engaged in the merchandising and sale of men's and boys' clothing and furnishings. Four manufacturing plants support retail operations.	United States	276	17	4	289	34
	Total Consolidated Companies					
	Stores	4,264	256	104	4,416	345
	Leased departments	329	29	13	345	35
	Total	4,593	285	117	4,761	380
Woolworth-Great Britain stores are located in the United Kingdom, Eire and the Caribbean. Included are Woolworth and Woolco units and catalogue stores which use the name Shoppers World.	Woolworth	1,004	1	10	995	1
	Woolco	13	1	1	13	
	Catalogue	17	1		18	
	Total	1,034	3	11	1,026	1
	Grand Total					
	Stores	5,298	259	115	5,442	346
	Leased departments	329	29	13	345	35
	Total	5,627	288	128	5,787	381

F. W. Woolworth Co. 1978 Annual Report

FISCAL YEAR ENDED JANUARY 31, 1979

Consolidated Statistics in Brief

For the fiscal years ended January 31, 1979, 1978 and 1977	**1978**	1977	1976
	(In thousands except per share amounts)		
Sales	**$6,102,800**	$5,534,500	$5,152,200
Income of consolidated companies before income taxes	**227,600**	152,100	181,900
Income taxes	**122,700**	82,900	83,900
Income of consolidated companies	**104,900**	69,200	98,000
Equity in net income of F. W. Woolworth and Co., Ltd.	**25,400**	16,300	10,100
Net income	**130,300**	85,500	108,100
Capital expenditures	**125,300**	108,900	102,700
Advertising costs	**151,200**	139,500	119,800
Short-term debt—foreign	**4,400**	4,100	3,900
Long-term debt	**410,100**	423,000	428,900
Shareholders' equity	**1,176,800**	1,091,800	1,048,700
Common shares outstanding at end of year	**29,100**	29,100	29,000

Per Common Share

Net income			
Primary	**$ 4.34**	$ 2.81	$ 3.61
Fully diluted	**4.12**	2.71	3.45
Cash dividends declared	**1.40**	1.40	1.25
Common shareholders' equity	**37.72**	34.81	33.47

Contents

To Our Shareholders

We are pleased that record sales and net income were achieved in the 1978 fiscal year and final quarter and that the Company further strengthened its financial position. All major operating units contributed to the improvements.

Net income increased 52.4% in 1978 to $130.3 million or $4.34 per common share, compared to $85.5 million or $2.81 per share in 1977, and rose 20.2% over the previous high of $3.61 per share recorded in 1976. Consolidated sales of $6.103 billion were 10.3% above the 1977 level. Fourth quarter net income increased 27.8% to $83.3 million or $2.83 per share compared to $65.2 million or $2.21 per share in the 1977 quarter. Fourth quarter consolidated sales of $1.955 billion were 12.9% above the comparable 1977 period.

Currency translation losses were minor in 1978, but were significant in 1977. Earnings for 1978 reflect the adoption of Financial Accounting Standard No. 13 (Accounting for Leases) and prior years' results have been restated to provide comparability.

Operating income of consolidated companies (income before corporate expense, interest and taxes) of $315.0 million in 1978 was 40.6% above the 1977 level and 26.0% greater than the previous high achieved in 1976. Each domestic operating unit produced record operating income in 1978, with the U.S. Woolworth and Woolco Division and Kinney posting significant dollar gains over 1977, and Richman showing a substantial percentage improvement. All major foreign consolidated subsidiaries produced record operating profits in local currencies. Our German subsidiary also had a record year expressed in U.S. dollars, aided by a strong German mark throughout the year. Canadian operating profits expressed in U.S. dollars rose in 1978, but were below 1975 and 1976 levels, when the value of the Canadian dollar was well above recent levels. Results last year demonstrate the advantages of geographic diversification as a "hedge" against volatile currency exchange rates. The adverse effect on our profits due to a decline in the Canadian dollar was offset by the positive impact of a strengthening in the British pound and the German mark.

Over one-third of 1978 operating profits, or $108 million, was generated by our 2,508 Kinney and Richman specialty stores and leased departments in the U.S., Canada and Australia. This makes Woolworth an important participant in the highly profitable, rapidly growing specialty store business.

The Company's net income from its 52.7% equity in the British subsidiary was $25.4 million for 1978, the highest level since 1973. Helped by a strong pound, this was 55.8% above 1977. Net earnings of the British subsidiary, expressed in pounds sterling, were 10.1% above 1977.

Consolidated companies opened 285 stores and leased departments during 1978 and closed 117. Selling area increased during the year by 1.8 million square feet. We expect to open 380 new units in 1979, amounting to approximately 3.6 million square feet. Capital expenditures, exceeding $125 million in 1978, are projected at about $150 million in 1979 and are expected to be provided from funds generated internally.

The Company improved its financial position further in 1978. For the third consecutive year all domestic short-term debt had been liquidated by year-end and long-term debt was reduced. Common shareholders' equity increased from $34.81 per share in 1977 to $37.72, and our return on year-end equity rose from 7.8% to 11.1%.

During 1978 the corporate office and each operating unit placed great emphasis on further development of long-range strategic plans. Guided by corporate objectives, each operating unit updates and modifies its strategies based on assessments of the economic, financial and competitive conditions anticipated during the term of the plan. While current assessments foresee opportunities for continued growth in all major operating units, the most important gains are expected in our specialty operations and U.S. Woolco stores. Woolco operations will benefit from the continuing reduction of licensee-operated departments.

A recent agreement will result in our operating, after July 31, 1980, all departments in Woolco stores licensed to Rockower Brothers Inc. This represents further progress in a program to improve profitability by operating better-margin departments presently leased to others.

A number of executive promotions and appointments were made in recent weeks that enhance our ability to capitalize on future operating and financial opportunities. They are detailed in the section on Management Changes.

Without advance notice, on April 9, 1979, Brascan Limited, a Canadian conglomerate, announced its intention to make a conditional tender offer to purchase all of Woolworth's common stock at $35 a share. Our Board of Directors unanimously rejected the Brascan offer on April 11, 1979, because it was grossly inadequate and not in the best interest of Woolworth shareholders. Our investment advisors, Kidder, Peabody & Co. and Goldman Sachs & Co., strongly concurred with the Board's decision.

The Company filed an action on April 12, 1979 in the Federal District Court for the Southern District of New York challenging the Brascan offer

W. Robert Harris   Edward F. Gibbons

on various grounds. The complaint alleged that Brascan's acquisition would violate, among other things, federal securities laws (such as relating to the misuse of inside information, violations of margin and disclosure requirements, etc.) and state securities laws.

We will keep you apprised of significant developments as they occur.

We are grateful to our shareholders, employees, customers, suppliers and landlords whose continued dedication, loyalty and support are indispensable to making our second century even more successful than our first.

E. F. Gibbons

EDWARD F. GIBBONS   Chairman and Chief Executive Officer

W. R. Harris

W. ROBERT HARRIS   President and Chief Operating Officer

April 16, 1979

U.S. Woolworth and Woolco Division

	1978	1977	1976	1975	1974
Sales (millions)	**$3,250**	3,004	2,761	2,548	2,347
Income before corporate expense, interest & taxes (millions)	**$ 75**	46	67	54	34
WOOLWORTH					
Sales (millions)	**$1,540**	1,464	1,385	1,315	1,259
Selling area in square feet (millions)	**24.3**	24.6	25.4	25.0	25.3
Sales per square foot	**$ 63**	60	55	53	50
WOOLCO					
Sales (millions)	**$1,710**	1,540	1,376	1,233	1,088
Selling area in square feet (millions)	**23.4**	22.2	21.0	20.7	19.7
Sales per square foot	**$ 73**	69	66	60	55

Sales of the U.S. Woolworth and Woolco division rose 8% in 1978 to $3,250 million and income before corporate expense, interest and taxes increased importantly to $75 million, both record levels. Since 1974 sales have increased 38% and operating income has grown by 120%. Increasing the percentage of sales in better profit merchandise lines, including apparel and home furnishings, contributed to the significant improvement in operating profits in 1978. In addition, selling costs were held to a smaller percentage of sales than in 1977.

In a move designed to increase productivity, most new Woolco stores opening in the U.S. are approximately 90,000 sq. ft. compared to 115,000 sq. ft. units of earlier years. Some new Woolcos will be in the 70,000 sq. ft. range.

New types of displays, better utilization of vertical space, as well as new display techniques, are making it possible to offer the same merchandise mix and generate at least the same sales in new smaller units as in existing larger stores.

The sales area in eight larger stores was reduced by approximately 25% in 1978 by subletting space to other retailers. Our experience with these units indicates significant benefits, including maintenance of total volume through increased sales per sq. ft., reduced operating costs and sizeable subtenant revenues. Another 28 units are scheduled for similar treatment in 1979, and approximately 60 more are planned for 1980. These are all presently 115,000 sq. ft. stores.

During 1979 Woolworth will continue its program of phasing out licensees. All jewelry departments will be operated by the Company's buying department by July, 1980. The takeover of licensee-operated men's wear departments will be completed by July, 1980.

Effective February 1, 1979, an entirely revised customer receivables financing agreement was established with General Electric Credit Corporation. This new agreement will produce significant

Sales of plants and other horticulture merchandise continue to increase in Woolworth and Woolco stores.

Major appliance departments in Woolco stores offer customers national brand merchandise at competitive prices.

savings over the next four years, compared to contract costs under the former agreement.

As part of the Company's 100th Anniversary observance, Woolworth store advertising during 1979 will include special anniversary television commercials and 10-second spots in selected key markets. Woolworth and Woolco sales will be promoted aggressively throughout the year.

Woolco continued to strengthen its position in its existing market areas. Among the 20 Woolco stores opened in 1978, three were in Long Island, N.Y., where five units that opened a year earlier have proven profitable.

Woolco's program to expand in its present markets will continue in 1979. The 25 units scheduled for this year will supplement existing stores in such markets as southern Louisiana, where three stores opened in 1978; in Washington, D.C., where five were added, and in the Philadelphia area where a single store was added.

Thirteen Woolworth stores were opened during 1978 and 10 additional are scheduled for 1979. Future growth will emphasize 50,000 sq. ft. units in selected mini-markets, as well as 20,000 to 25,000 sq. ft. units in large regional shopping centers.

Free-standing Woolworth Garden Centers are being programmed for rapid expansion in California and the sunbelt states, where year-round operation is profitable. There were 12 garden centers operating during the year, all in California, with 10 to open during 1979 and 1980 and 10 to 15 more annually in the next few years.

Sports-related apparel departments enjoyed customer acceptance in 72 Woolco stores. Another 75 will be opened in 1979.

The number of home improvement departments in Woolco stores will be doubled during 1979, reflecting ever-increasing popularity of do-it-yourself projects.

Attractive Harvest House coffee shops are in many shopping centers and enclosed malls. Food service is offered in approximately 1,900 units in 1,483 Woolworth and Woolco stores.

Kinney Shoe Corporation

	1978	1977	1976	1975	1974
Sales (millions)	$ 808	690	588	495	410
Income before corporate expense, interest & taxes (millions)	$ 98	77	60	46	34
UNITED STATES					
Sales (millions)	$ 672	574	473	398	326
Selling area in square feet (thousands)	4,438	4,130	3,919	3,595	3,347
Sales per square foot	$ 151	139	121	111	97

For the fifth consecutive year, Kinney's sales increased by more than 15% and income before corporate expense, interest and taxes grew by more than 25%. Sales in 1978 increased 17%, while operating income rose 27%. Since 1974, sales have risen by 97% and operating income by 188%.

Excellent sales of women's fashion footwear and athletic shoes contributed to improved gross margins in 1978. In addition, selling costs were held to a lower percentage of sales. Kinney family shoe stores, Susie's Casuals and Foot Locker in the U.S. enjoyed record profits last year, as did operations in Canada and Australia. The company plans to open a total of 293 units this year, compared with 227 in 1978, 191 in 1977 and 165 in 1976. Since first-year sales of stores opened each year have exceeded first-year sales of those opened in the prior year, Kinney looks forward to continued strong sales gains.

Kinney experienced steady growth during 1978 with all divisions adding new outlets, resulting in a 9% increase in total units. At the end of fiscal 1978 Kinney was operating 2,219 stores and leased departments.

In the U.S. Kinney completed its most successful expansion program to date, opening 184 units.

Kinney family shoe stores in the U.S. continue to be the industry's leading marketer of popular-priced family footwear. Kinney sustained its dynamic growth pattern during 1978, opening 100 Kinney shoe stores, raising the total to 1,286. An additional 115 new stores are expected to open in 1979.

An innovative and extensive advertising program sustained Kinney's "Great American Shoe Store" image during the year. National magazine and network television advertising featured Kinney as the most exciting family shoe store in which to shop. Sponsorship of network television specials, a feature of Kinney's sales promotion program, included participation during the World Series in the sponsorship of the 1978 "Bob Hope Salute to Baseball."

Susie's Casuals, Kinney's apparel chain, continued its rapid expansion by opening 28 units in 1978, bringing the total number in operation to 204 at the end of the year. Responding to changes in style, Susie's Casuals developed a new store design

providing for greater sales per square foot by improving layout and display, and creating a more appealing shopping environment for junior customers. In 1979 an additional 40 units utilizing this new design will be opened.

Foot Locker, Kinney's athletic footwear and apparel chain, opened 35 new stores, bringing the total units to 68. Foot Locker stores carry name brand athletic footwear as well as private label merchandise. In just four years Foot Locker has established itself as one of the leading athletic footwear chains. Continuing this growth pattern Foot Locker will open 45 additional units as well as a 100,000 sq. ft. warehouse and distribution center in 1979 in southern California.

In 1978 Kinney's Canadian operations expanded by 34 units, bringing the total to 318. Plans call for opening 48 units in 1979. Since opening its first store 13 years ago, Kinney has become the dominant footwear retailer in Canada. The division introduced Foot Locker stores to Canada in 1978, opening four units that utilized the successful format of their U.S. counterparts. Seven more units are planned for 1979.

Kinney's Australian operation maintained its marketing dominance during the year, opening nine units that brought the total to 101. An additional 18 stores are planned for 1979.

Kinney's involvement in the area of public service continued during the year, with the implementation of its "Walking Tours of America" project, conducted in cooperation with the President's Council on Physical Fitness and Sports. The company also sponsored a successful museum exhibition, "The Great American Foot," in conjunction with New York's Museum of Contemporary Crafts. The exhibition will tour the U.S. during 1979.

Kinney's U.S. shoe division is the leading marketer of popular-priced family footwear. Sales of women's fashion footwear and athletic shoes were excellent in 1978.

Susie's Casuals, a young women's apparel chain, has developed a new store design. Kinney operates more than 200 of these units in the U.S.

Foot Locker has established itself as one of the leading athletic footwear and accessories chains in the U.S. in just four years.

(in local currency)

		1978	1977	1976	1975	1974
CANADA						
Sales (millions)	C$	127	101	93	80	66
Selling area in square feet (thousands)		713	681	616	567	522
Sales per square foot	C$	178	148	151	141	126
AUSTRALIA						
Sales (millions)	A$	22	20	17	15	11
Selling area in square feet (thousands)		147	133	129	126	118
Sales per square foot	A$	150	150	132	119	93

Richman Brothers

	1978	1977	1976	1975	1974
Sales (millions)	$ 177	157	160	145	128
Selling area in square feet (thousands)	1,490	1,421	1,421	1,428	1,323
Sales per square foot	$ 119	110	113	102	97
Income before corporate expense, interest & taxes (millions)	$ 10	6	8	7	1

Richman Brothers' sales improved by 13% in 1978 and income before corporate expense, interest and taxes rose sharply, reaching $10 million, an increase of almost 67%. Sales and income reached record levels in 1978, with both the Richman and Anderson-Little divisions contributing. Gross margins improved while selling costs were held to relatively small increases. From 1974 to 1978, sales rose 38% and sales per sq. ft. increased 23%.

A number of organizational and merchandising programs implemented in the last two years began to show benefits in 1978 and should continue to do so. These include: a training program to augment the merchandising skills and productivity of personnel; a program of closing marginal stores; upgrading store formats and merchandise presentation; emphasis on fashion merchandising; and focusing greater attention on regional preferences.

Richman opened 17 stores during 1978, all in existing market areas, to capitalize on familiarity with the Richman and Anderson-Little names.

Since 1976 the company has remodeled 35 stores by utilizing an "open front" design. An additional 27 units will be remodeled in 1979. Twenty-eight new stores planned for 1979 also will incorporate the "open front" design.

At the end of 1978, Richman was operating 289 stores in 37 states and the District of Columbia, including 95 Anderson-Little family apparel stores in the Northeast and South. During the year Anderson-Little opened a successful prototype unit designed for expanding secondary markets.

During 1979 Richman will be converting its "in house" credit program to a Richman/VISA® program developed in cooperation with a major bank. Richman will be the first national clothing company to issue a personalized major bank credit card.

Richman is also observing its 100th anniversary during 1979.

Richman and Anderson-Little stores feature extensive lines of contemporary fashion accessories.

Personalized customer service and fashion tailoring contributed to improved sales in 289 Richman and Anderson-Little stores in the U.S.

Woolworth and Woolco Canada

(in Canadian dollars)	1978	1977	1976	1975	1974
Sales* (millions)	C$1,319	1,208	1,148	1,011	840
Income before corporate expense, interest & taxes (millions)	C$ 62	53	49	55	42
WOOLWORTH					
Sales (millions)	C$ 281	274	288	269	242
Selling area in square feet (millions)	3.5	3.6	3.9	3.9	3.8
Sales per square foot	C$ 80	76	74	69	64
WOOLCO					
Sales (millions)	C$1,031	926	852	735	593
Selling area in square feet (millions)	9.6	9.2	8.7	8.0	7.2
Sales per square foot	C$ 107	101	98	92	82

*Includes catalogue store sales.

Woolworth Canada's income before corporate expense, interest and taxes, expressed in U.S. dollars, rose to $47 million in 1978, a 31% increase over the level in 1977. Sales in U.S. dollars rose 2% to $1.147 billion, reflecting approximately a 7% decline in value of the Canadian dollar. The improvement in operating income in 1978 resulted from record earnings in local currency as well as smaller currency losses in 1978 than in 1977.

As shown in the table above, sales in Canadian dollars reached $1.319 billion in 1978, a 9% improvement over 1977, and operating income increased 17% to $62 million. Both represent record levels. Since 1974, sales have grown by 57% and operating income by 48% and sales per square foot of selling area increased by 25% in Woolworth stores and by 30% in Woolco.

The subsidiary operated 315 Woolworth, Woolco and Woolco Catalogue stores at the end of 1978, and will open eight additional Woolco and three Woolworth stores in 1979. The company operates the largest promotional department store chain in Canada, with stores in nearly all markets with a population of more than 10,000.

To expand its Data Processing Department and provide improved on-line electronic systems for its stores, the company enlarged its Toronto Distribution Center by 30,000 square feet. This system improves sales, customer service and inventory control.

Further advances were made in 1978 in achieving strong sales gains in private label merchandise. These carry a "Seal of Quality" awarded by an independent testing agency, enabling customers to feel confidence in the integrity of the products. The program will be supported in 1979 by national magazine and television advertising, featuring small appliances and other goods.

The company's aggressive merchandising and promotional programs will capitalize on important regional style preferences, with plans for large sales gains in the important western markets.

Woolco and Woolworth in Canada are placing ever-increasing emphasis on fashion and sports-related apparel.

Woolworth-Canada's "Seal of Quality" program for private brand merchandise is producing excellent sales results.

Germany

(in German marks)

	1978	1977	1976	1975	1974
Sales (millions)	**1,477**	1,336	1,234	1,166	1,083
Selling area in square feet (millions)	**3.0**	2.9	2.7	2.5	2.3
Sales per square foot	**492**	461	457	466	471
Income before corporate expense, interest and taxes (millions)	**142**	123	125	120	123

Substantial sales and profit improvements were achieved by Woolworth-Germany in 1978 in U.S. dollars. These improvements were aided by sharp appreciation in the German mark. Sales rose 28% to $743 million and income before corporate expense, interest and taxes increased 46% to $79 million, establishing new highs for both. Since 1974 sales have grown by 74% and operating income has almost doubled, a reflection of Woolworth-Germany's excellent position in an economy with little inflation and sharply rising currency values.

In local currency the increase between 1977 and 1978 in both sales and income exceeded 10%, as shown in the table above. Gross profit margins widened slightly but selling costs rose fractionally as a percentage of sales. This was achieved in an economy which operated at a high level but with little growth, and one with a high savings rate and nominal increases in consumer spending. Woolworth continued to increase its market share in Germany. Over the 1974-78 period sales expanded by 36% and operating income, after several years of modest changes, rose 15%. Sales per square foot rose in both 1977 and 1978. Small declines in both 1975 and 1976 reflected the rapid addition of larger stores which mature more slowly than smaller stores.

Woolworth-Germany operates 199 stores in West Germany, providing the company with excellent penetration in major market areas.

Two new stores were opened and five others were modernized during the year and the company's total sales area approached three million square feet.

Seven stores will be opened during 1979, and three existing stores will be modernized.

With new and larger stores, Woolworth-Germany has been able to expand and upgrade such merchandise departments as home improvement, and sporting goods and apparel.

Woolworth stores in Germany are placing greater emphasis on more profitable merchandise lines.

Woolworth-Germany is expanding and upgrading sports apparel departments in larger stores.

Mexico and Spain

MEXICO (in pesos)	1978	1977	1976	1975	1974
Sales (millions)	1,156	977	750	614	540
Selling area in square feet (thousands)	585	561	581	581	598
Sales per square foot	1,976	1,742	1,291	1,057	903
SPAIN (in pesetas)					
Sales (millions)	1,214	971	867	770	738
Selling area in square feet (thousands)	251	295	278	278	181
Sales per square foot	4,837	3,292	3,119	2,770	4,077

For Mexico and Spain combined, income before corporate expense, interest and taxes rose in 1978 as expressed in U.S. dollars. In both countries Woolworth enjoyed rates of sales gain greater than the rates of inflation. The Mexican subsidiary's improvement in income in 1978 was significant. Results deteriorated in Spain because of the absorption of costs associated with closing of the Vitoria store.

In pesos, both total sales and sales per square foot rose by approximately 115% in Mexico from 1974 to 1978, well ahead of the rate of inflation. In Spain, sales in pesetas increased almost 65% and sales per square foot rose 19% in that same period.

Woolworth-Mexico is continuing a program of renovating and updating its 24 stores to maintain the competitiveness of all units. Major renovations are scheduled in four stores during 1979 which will increase selling space in some of these units by as much as 60 percent.

Much of the additional selling area is being devoted to new, popular-priced apparel lines to further improve sales per square foot.

Distribution facilities in Mexico City are being enlarged to provide for faster and less costly distribution of merchandise.

Woolworth-Mexico began using new data processing equipment with the start of the 1979 fiscal year which will produce improved management procedures and controls and more informed decision making.

Woolworth-Spain is improving and broadening merchandise lines in its seven stores. Particular emphasis is being placed on household lines, sporting goods and apparel, and fashions for teens.

Spain enjoyed a record tourist year in 1978, with the number of visitors exceeding the population. Another tourist boom is expected this year.

Increased selling space in renovated stores in Mexico is being utilized for popular-priced merchandise lines.

Woolworth's seven stores in Spain are improving and broadening such merchandise lines as sporting apparel and fashions.

Woolworth – Great Britain

(in pounds sterling)	1978	1977	1976	1975	1974
Sales (millions)	£ 823	724	665	573	462
Selling area in square feet (millions)	10.1	10.1	10.2	10.0	9.7
Sales per square foot	£ 81	72	65	57	48
Income before corporate expense, interest and taxes (millions)	£ 60	55	43	37	30

Our equity in net income of F. W. Woolworth and Co., Limited was $25.4 million in 1978, an increase of $9.1 million over 1977. Comparisons were helped by the rising value of the pound sterling. The increase represented 31 cents of our total consolidated earnings gain of $1.53 per share in 1978.

As shown in the local currency table above, sales were £823 million in 1978, 14% higher than in 1977, while operating income of £60 million was 9% higher than in 1977. These results are encouraging, considering the work stoppages in a number of key industries during the important closing months of the year. Since 1974, sales, sales per square foot, and income have all shown consistent improvement in pounds sterling.

Woolworth-Great Britain is making excellent progress in developing new and profitable lines of merchandise. Customer awareness of new merchandise developments has been increased through vigorous television advertising, emphasizing quality and value.

Continued development of a viable apparel business was further improved by the introduction of a computer-based merchandise control system.

At the end of the fiscal year, the British company was operating 1,008 Woolworth and Woolco stores, along with 18 Shoppers World catalogue stores. During 1978 Woolworth-Great Britain modernized 92 stores and expanded five others. Eight new catalogue units were opened, seven in Woolworth stores.

The company's distribution network was improved with the opening of four trans-shipment centers which consolidate store deliveries from suppliers, reducing transit time and freight costs.

Personnel training continued to receive top priority with further development of a staff appraisal program and the introduction of a major industrial relations training program for management.

Woolworth-Great Britain's Woolworth and Woolco stores are placing emphasis on toiletries and beauty aids.

To promote sales of name-brand small appliances, British company's TV advertising emphasizes quality and value.

Management: Structure, Objectives and Programs

F. W. Woolworth Co. is a diversified, decentralized international retailing company consisting of a corporate headquarters, one operating division and seven subsidiaries.

The corporate office has a wide range of responsibilities, including the establishment of corporate policies required in the overall management of the business. Within this framework, the corporate staff establishes objectives, institutes strategies for the Company as a whole, and approves the strategic plans of the operating division and subsidiaries, allocating the capital necessary to implement the plans and approving action programs required by them. It provides services that would be uneconomic to maintain at the operational level, as well as those services deemed necessary to insure uniformity where uniformity is desired.

The corporate staff sets standards for return on investment, earnings growth and business ethics. It determines businesses the Company should pursue and those which are not attractive. It monitors and measures levels of performance of each operating unit. Other corporate responsibilities include: institution and monitoring of uniform accounting and internal control practices, consolidation of operating results, tax policies and planning, and public releases made by F. W. Woolworth Co. The corporate staff is also responsible for relationships with investors.

Fiscal policy for worldwide operations, divisional and subsidiary, emanates from corporate headquarters.

The operating division and subsidiaries are led by management teams with intimate knowledge in their respective markets of competitive, political, economic and demographic conditions, together with customer preferences and tastes and how to satisfy them most effectively. Under corporate direction, division managements have the responsibility for creating their own goals, plans and action programs for maximizing profit growth. These are formulated in five-year strategic operating plans, updated each year.

Capital investments are oriented toward the greatest returns over the intermediate-to-longer term, consistent with acceptable levels of risk.

Management's goal is to continue improving on the present 11.1% return on year-end equity and to reach, over a period of several years, a level which is above the average for our industry. Such improvements require that profits grow at a faster rate than equity. This is expected to be achieved by increasing the ratio of sales to total investment and improving the percentage of sales converted into profits through increasing gross margins and reducing the selling cost ratio. Increased emphasis on higher margin specialty store operations, through internal expansion and acquisition, and the continued reduction of leased departments are integral parts of the program to achieve higher gross margins and improved return on investment.

Management Changes

Several promotions and appointments were made recently to further strengthen corporate and divisional management.

Corporate senior executive vice-president John W. Lynn was assigned responsibility for world wide Woolworth and Woolco operations, a $5 billion business in six countries. Richard L. Anderson was elected a corporate senior executive vice-president and director, with responsibility for specialty store operations, which produce in excess of one-third of Woolworth's total operating income.

Additions to the corporate staff include John P. Long, senior vice-president—corporate personnel; Arnold S. Anderson, vice-president and general counsel, and Harold R. Hiser, Jr., vice-president and treasurer. Clayton Van Buren was elected assistant to the senior vice-president—finance, and James F. Welch was elected general auditor. In addition, Lester D. Hewell was elected corporate senior vice-president—store operations and administration and William G. Baker, Jr. was elected corporate vice-president—expense and security.

In the U.S. Woolworth and Woolco Division, John L. Sullivan, corporate executive vice-president, was elected president, and George W. Nelson, corporate senior vice-president, was elected general manager.

Cameron I. Anderson became president of Kinney Shoe Corporation, and within The Richman Brothers Company Donald R. Gerstenberger was elected chairman and Harry P. Guinther, president and chief executive officer.

Management's Discussion and Analysis of the Business

The schedule at the right summarizes five year information by management responsibility and geographic area and is an integral part of the consolidated financial statements included on pages 20 to 30 of this annual report. The year 1977 and prior years have been restated to reflect capitalization of certain leases.

* * *

Percentage improvements in domestic and foreign sales were approximately equal in 1978. Since 1974 each has increased in excess of 46%, representing an average annual compound rate of growth of 10%. In 1978, as in each year of the 1974-77 period, Kinney achieved the greatest rate of sales gain among domestic operations.

Expressed in U.S. dollars, Canadian sales of Woolworth and Woolco, as well as those of Kinney, were reduced in both 1977 and 1978 by the significant decline in value of the Canadian dollar over the past two years. Sales in Germany, reported in U.S. dollars, benefitted from appreciation in value of the German mark in 1978.

Domestic operating income (income before corporate expense, interest and taxes) rose 40% in 1978, including a 63% increase in Woolworth and Woolco, 23% in Kinney and 67% for Richman. The Woolworth and Woolco division had a larger dollar gain than any subsidiary, domestic or foreign. From 1974 to 1978, total domestic income expanded by 173%.

Despite lower U.S. dollar income from Canada than the $56 million attained in 1976, foreign operating income increased 42% in 1978, led by a 46% rise in Germany. The increase from 1974 to 1978 was also 42%, led by an 84% increase in Germany.

Total assets rose 10% last year, or by $242 million, with about 60% of the increase in domestic assets. Over the 1974-1978 period total assets expanded by 16%. With its total assets in 1978 at almost precisely the 1974 level, U.S. Woolworth and Woolco last year produced significantly greater operating income than in 1974.

Financial Information by Management Responsibility and Geographic Area

	1978	1977	1976	1975	1974
	(In millions of dollars)				
SALES					
Domestic: Woolworth and Woolco	**$3,250**	$3,004	$2,761	$2,548	$2,347
Kinney	**672**	574	473	398	326
Richman	**177**	157	160	145	128
Total Domestic	**4,099**	3,735	3,394	3,091	2,801
Foreign: Canada	**1,147**	1,125	1,163	992	858
Germany	**743**	581	492	469	428
Mexico and Spain	**67**	56	61	63	57
Kinney: Canada & Australia	**136**	116	115	97	84
Total Foreign	**2,093**	1,878	1,831	1,621	1,427
Intersegment sales	**(89)**	(79)	(73)	(62)	(51)
	$6,103	$5,534	$5,152	$4,650	$4,177
INCOME BEFORE CORPORATE EXPENSE, INTEREST AND TAXES					
Domestic: Woolworth and Woolco	**$ 75**	$ 46	$ 67	$ 54	$ 34
Kinney	**87**	71	54	41	28
Richman	**10**	6	8	7	1
Total Domestic	**172**	123	129	102	63
Foreign: Canada	**47**	36	56	51	45
Germany	**79**	54	52	56	43
Mexico and Spain	**6**	5	7	9	7
Kinney: Canada & Australia	**11**	6	6	5	6
Total Foreign	**143**	101	121	121	101
	315	224	250	223	164
Unallocated corporate expense	**(7)**	(4)	(4)	(2)	(4)
Service charges on receivables sold	**(20)**	(15)	—	—	—
Interest on borrowings	**(60)**	(53)	(64)	(63)	(70)
Income taxes	**(123)**	(83)	(84)	(75)	(45)
	(210)	(155)	(152)	(140)	(119)
Income of consolidated companies	**105**	69	98	83	45
Equity in net income of F. W. Woolworth and Co., Limited	**25**	16	10	18	9
Net income	**$ 130**	$ 85	$ 108	$ 101	$ 54
TOTAL ASSETS					
Domestic: Woolworth and Woolco	**$1,239**	$1,150	$1,110	$1,255	$1,233
Kinney	**330**	285	252	229	210
Richman	**93**	83	82	85	69
Total Domestic	**1,662**	1,518	1,444	1,569	1,512
Foreign: Canada	**406**	376	384	365	338
Germany	**335**	289	270	244	216
Mexico and Spain	**41**	40	39	42	41
Kinney: Canada & Australia	**63**	51	51	48	44
Investment in F.W. Woolworth and Co., Limited	**200**	191	188	191	192
Total Foreign	**1,045**	947	932	890	831
	$2,707	$2,465	$2,376	$2,459	$2,343
DEPRECIATION AND AMORTIZATION, OWNED PROPERTIES					
Domestic: Woolworth and Woolco	**$ 37**	$ 40	$ 35	$ 35	$ 35
Kinney	**10**	8	8	7	6
Richman	**2**	2	2	2	2
Total Domestic	**49**	50	45	44	43
Foreign: Canada	**14**	13	12	11	10
Germany	**11**	11	10	10	8
Mexico and Spain	**1**	1	1	1	1
Kinney: Canada & Australia	**2**	2	1	1	1
Total Foreign	**28**	27	24	23	20
	$ 77	$ 77	$ 69	$ 67	$ 63
CAPITAL EXPENDITURES					
Domestic: Woolworth and Woolco	**$ 63**	$ 44	$ 32	$ 20	$ 35
Kinney	**22**	20	17	15	12
Richman	**3**	3	2	3	4
Total Domestic	**88**	67	51	38	51
Foreign: Canada	**21**	14	21	17	15
Germany	**10**	23	28	23	25
Mexico and Spain	**1**	2	1	3	4
Kinney: Canada & Australia	**5**	3	2	3	3
Total Foreign	**37**	42	52	46	47
	$ 125	$ 109	$ 103	$ 84	$ 98

Total depreciation and amortization in 1978 was approximately unchanged from the 1977 level, but was 22% higher than in 1974. Capital expenditures rose 15% in 1978 and rose 28%, or by $27 million, from 1974 to 1978. In the past three years, and supporting the strong growth of domestic profits, domestic capital expenditures have grown sharply while foreign expenditures have declined.

Five-Year Summary of Operations

Below is a five-year summary of operations and of financial condition of F. W. Woolworth Co. and its consolidated subsidiaries and its equity in the results of operations of the unconsolidated British subsidiary. The year 1977 and prior years have been restated to reflect capitalization of certain leases.

	1978	1977	1976	1975	1974
SUMMARY OF OPERATIONS		(In thousands except per common share amounts)			
Sales	**$6,102,800**	$5,534,500	$5,152,200	$4,650,300	$4,177,100
Costs of sales	**4,268,500**	3,919,000	3,638,300	3,280,600	2,960,700
Selling, general and administrative expenses	**1,483,800**	1,345,700	1,213,600	1,091,500	1,005,600
Depreciation and amortization, owned properties	**77,300**	77,500	68,700	66,900	63,000
Interest on borrowings	**59,900**	52,700	63,700	63,200	70,300
Income taxes	**122,700**	82,900	83,900	74,700	45,200
Income of consolidated companies	**$ 104,900**	$ 69,200	$ 98,000	$ 83,200	$ 45,200
Equity in net income of F. W. Woolworth and Co., Limited	**25,400**	16,300	10,100	18,000	8,600
Net income	**130,300**	85,500	108,100	101,200	53,800
Dividend requirement of preferred stock	**(3,800)**	(3,800)	(3,800)	(3,800)	(3,800)
Net income applicable to common stock	**$ 126,500**	$ 81,700	$ 104,300	$ 97,400	$ 50,000
Per common share					
Net income					
Primary	**$4.34**	$2.81	$3.61	$3.40	$1.76
Fully diluted	**4.12**	2.71	3.45	3.26	1.74
Dividends declared	**1.40**	1.40	1.25	1.20	1.20
Average common shares outstanding	**29,200**	29,100	28,800	28,600	28,400
FINANCIAL CONDITION					
Inventories	**$1,244,800**	$1,077,200	$1,026,300	$ 914,100	$ 862,100
Working capital	**728,800**	683,500	668,000	673,000	542,200
Owned properties—net	**748,900**	718,700	692,400	661,900	649,000
Short-term debt	**4,400**	4,100	3,900	148,300	243,100
Long-term debt	**410,100**	423,000	428,900	485,800	413,100
Total shareholders' equity	**1,176,800**	1,091,800	1,048,700	977,300	911,400
Percent return on year-end equity	**11.1%**	7.8%	10.3%	10.4%	5.9%
Common shareholders' equity	**1,098,700**	1,013,600	970,500	899,000	833,100
Per common share	**37.72**	34.81	33.47	31.29	29.24

Sales

Sales of consolidated companies rose 10.3% in 1978, compared with a 7.4% increase in 1977. Each unit increased sales. From the 6.8% improvement in the first quarter, to the 12.9% increase in the final period, each successive quarter showed larger gains. This was achieved through an improved merchandise mix, new stores, good gains at existing stores and inflation. In addition, foreign currency fluctuations did not depress sales quite as severely in 1978 as in 1977.

Costs of Sales

Costs of sales rose 8.9% in 1978, a smaller increase than the rate of sales gain. The reverse was true in 1977, when costs of sales rose 7.7% and sales rose 7.4%. The improvement in 1978 is largely a function of achieving greater sales gains in higher profit margin lines, combined with a better markdown experience than in 1977 and the favorable effect of foreign exchange translations on costs of goods sold.

Selling, General and Administrative Expenses

The increase in selling, general and administrative expenses was 10.3% in 1978, the same as the percentage sales gain. In 1977 selling costs rose 10.9%, or 3.5 percentage points more than the rate of sales gain. In 1978, increases in unit costs for labor, energy, advertising and other selling costs were offset by greater sales productivity.

Interest on Borrowings

Interest rose 13.7% in 1978 to $59.9 million, from $52.7 million in 1977, which represented a decline from $63.7 million in 1976. The increase in 1978 reflects both greater short-term borrowings than in 1977, as well as an increase in short-term interest rates.

Income Taxes

The effective income tax rate was 54% of consolidated companies' income in 1978, compared with 55% in 1977 and 46% in 1976. The large increase in the 1977 effective tax rate was a result of a sharp increase in the tax rate in Germany from an unusually low level in 1976, as well as foreign currency translation losses which reduced net income but not income taxes, because such losses are not deductible.

Net Income

Net income rose by $44.8 million in 1978, an increase of 52% over the somewhat depressed 1977 level and 21%, or $22.2 million, over the previous record reached in 1976. On a per common share basis net income was $4.34 in 1978, compared with $2.81 in 1977 and $3.61 in 1976.

The 52% increase in income of consolidated companies in 1978 to $104.9 million was a reflection of greater sales, improved gross margins, well controlled selling costs and considerably lower currency translation costs. Improved equity in net income from our British subsidiary reflected an increase in net income in British pounds sterling, a significantly lower effective tax rate, as well as a small currency translation gain in 1978 compared with a currency loss in 1977.

The 7% increase in income of consolidated companies between 1976 and 1978 was achieved despite a significant increase in the effective tax rate. Income of consolidated companies before income taxes rose 25% between 1976 and 1978.

Currency Translation Gains and Losses

Of the $1.53 per share increase in net income in 1978, $0.65 was accounted for by significantly lower foreign currency translation losses, which declined from $0.72 per share in 1977 to $0.07 in 1978. Consolidated companies experienced $0.09 per share of currency translation losses in 1978, compared with $0.58 in 1977. A smaller rate of decline in the Canadian dollar in 1978 reduced our Canadian currency losses in 1978 to approximately one-half the 1977 amount. In addition, the sharp rise in value of the German mark in 1978 helped to offset a significant portion of the currency losses in Canada. The rise in value of the British pound during most of 1978 produced a $0.02 per share currency translation gain for the year, compared with a $0.14 per share loss in 1977.

Currency translation gains added $0.26 per share to 1978 fourth quarter earnings, compared to a $0.10 reduction in the corresponding 1977 period. In this same quarter, consolidated companies experienced a $0.03 per share loss in 1978 and a $0.23 loss in 1977, while our British subsidiary contributed a $0.29 per share gain in 1978 and a $0.13 gain in 1977.

The tables below show the reduction in earnings per share, including equity in the net income of our unconsolidated British subsidiary, from balance sheet and income statement translations for the years 1978 and 1977, as well as the effect of currency translations on a quarterly basis for 1978 and 1977 and for the entire year 1976.

	Effect per common share		
	1978	1977	Variance
Exchange (losses) gains from balance sheet translation (FAS No. 8)	**$(.32)**	$(.53)	$.21
Inventory and fixed asset (losses) gains from income statement translation	**.25**	(.19)	.44
Total currency change related items*	**$(.07)**	$(.72)	$.65

	Net income per common share		
	In accordance with FAS No. 8	Translated at average rate	Difference*
Quarter			
First	**$ .34**	**$ .24**	**$ .10**
Second	**.48**	**.60**	**(.12)**
Third	**.69**	**1.00**	**(.31)**
Fourth	**2.83**	**2.57**	**.26**
Year—**1978**	**$4.34**	**$4.41**	**$(.07)**
Quarter			
First	$ .21	$ .20	$ .01
Second	.04	.27	(.23)
Third	.35	.75	(.40)
Fourth	2.21	2.31	(.10)
Year—1977	$2.81	$3.53	$(.72)
Year—1976	$3.61	$3.49	$ .12

*Represents the difference between net income determined in accordance with FAS No. 8 and net income which would have been reported if exchange fluctuations were applied to all assets and liabilities and operations were thereafter translated at average rates in effect during the periods.

Exchange losses from balance sheet translation (FAS No. 8) arise from the requirement to increase net monetary liabilities when foreign currencies have increased in value, in translating these accounts into U.S. dollars. In addition, balance sheet translation losses occur as a result of a requirement that the value of inventories carried in foreign currencies be reduced to reflect the declining value of that currency relative to the U.S. dollar, in order that such inventories be stated at the lower of cost or market value. Finally, the capitalization of leases in 1978 and prior years, in accordance with FAS No. 13, involved the creation of an additional liability, "obligations under capital leases," for certain foreign subsidiaries. These monetary liabilities were increased in U.S. dollars to

reflect the rising value of currencies in which some subsidiaries' balance sheets were stated.

Inventory and fixed asset gains or losses from income statement translations arise from the fact that sales are translated at average U.S. dollar rates during the year while cost of goods sold are translated at historical rates. When foreign currency values are changing sharply the spread between sales and cost of goods sold—a very significant determinant of net income for a retailer—is either widening and producing gains, or narrowing and producing currency translation losses.

Financial Condition

The Company continued to strengthen its financial condition in 1978. All domestic short-term debt had been eliminated by year-end and long-term debt was reduced, both for the third consecutive year.

Shareholders' equity increased to $1,177 million on January 31, 1979, compared to $1,092 million on January 31, 1978, which represents an increase in equity per common share from $34.81 to $37.72. Return on year-end shareholders' equity rose from 7.8% in 1977 to 11.1% in 1978, the highest level in recent years.

At the end of 1978 the ratio of current assets to current liabilities was 2.04 compared to 2.21 at the end of the prior year.

Working capital was $729 million on January 31, 1979, compared with $684 million at the end of the prior year. The percentage of total debt to shareholders' equity was again reduced in 1978 to 36%, compared to 41% in 1977 and 43% in 1976. The present level represents about one-half the high of 71% reached in 1974. Merchandise inventories were $1,245 million at the end of 1978, compared to $1,077 million at the end of 1977. The increase largely reflects both sales gains and new stores added in 1978 and planned for 1979.

Dividends

Cash dividends have been paid on the common stock in each of the 267 quarters since the Company became a public corporation.

Directors review the quarterly payment at least four times a year. Among the important considerations influencing their decisions are the following: the level of and outlook for normalized earnings; the percentage of earnings paid to shareholders and yields afforded by common stocks of other retailers and other companies of similar investment stature and growth prospects; funds required for re-investment in fixed assets and inventory and the returns such investments are likely to produce; availability and cost of new capital; the level of debt in relation to equity, and the impact on the capitalization ratio of going outside the Company for additional funds. Management expects that, over a period of years, dividend growth will approximate the rate of growth in earnings.

Dividends on common and preferred stocks in 1978 amounted to $40,900,000 and $3,800,000, respectively. Dividends on common shares were paid in 1978 and 1977 at the rate of 35 cents per quarter. Dividends on preferred stock were at a quarterly rate of 55 cents per share. At January 31, 1979, 99,364 shareholders of record owned 29,127,815 shares of common stock and 6,801 shareholders of record owned 1,736,084 shares of preferred stock.

Lease Capitalization

Financial Accounting Standard No. 13 (FAS 13) requires that leases which transfer substantially all the benefits and risks incident to the ownership of property be recorded in financial statements as both an asset, as if purchased (leased properties under capital leases) and as a corresponding liability, as if the purchase amounts were borrowed (obligations under capital leases) and that net income reflect interest on the obligations and depreciation of the assets, rather than rental expense. This generally results in increasing property costs in the early years of the lease.

In addition to other criteria, capitalization is required when the Company returns (through minimum lease payments) at least 90% of the fair value of the leased property to the lessor over the initial term of the lease or when the initial term of the lease encompasses at least 75% of the economic life of the property.

For several reasons, the majority of the Company's leases do not qualify as capital leases and, therefore, are not recorded as assets and obligations in the financial statements. Most of the Company's store leases have relatively short (non-cancellable) terms of 20 years or less and many older store leases are being renewed for five year intervals. Also, in recent years, it generally has been the Company's policy to lease space in large shopping centers, rather than free-standing stores. Many units, especially Woolworth, Kinney and Richman stores, occupy a very small portion of the total retail space of a shopping center. In such cases, it is not practical to establish the value of a component of a shopping center or its economic life. These characteristics serve to prevent the lessor from recovering 90% of the property's fair value during the initial lease term and keep the lease term from extending beyond 75% of the economic life of the property.

The value of the Company's capitalized leases under FAS 13 is considerably lower than amounts disclosed in prior year financial statements under a Securities and Exchange Commission disclosure standard. Unlike the SEC regulation, FAS 13 does not require capitalization of land, excludes contingent rentals (such as rents based on sales volume) from the minimum rental payments and excludes optional renewal periods when determining the minimum lease term.

Consolidated Statement of Income

For the fiscal years ended January 31, 1979 and 1978	**1978**	1977*
	(In thousands of dollars)	
Revenues		
Sales, including sales from leased departments of $502,900 and $479,800	**$6,102,800**	$5,534,500
Other income	**14,300**	12,500
	6,117,100	5,547,000
Costs and expenses		
Costs of sales	**4,268,500**	3,919,000
Selling, general and administrative expenses	**1,483,800**	1,345,700
Depreciation and amortization, owned properties	**77,300**	77,500
Interest on borrowings	**59,900**	52,700
	5,889,500	5,394,900
Income of consolidated companies before income taxes	**227,600**	152,100
Income taxes	**122,700**	82,900
Income of consolidated companies	**104,900**	69,200
Equity in net income of F. W. Woolworth and Co., Limited	**25,400**	16,300
Net income	**$ 130,300**	$ 85,500
Net income per common share		
Primary	**$4.34**	$2.81
Fully diluted	**$4.12**	$2.71

*Restated—see notes 1 and 2, page 26

See notes to consolidated financial statements

Consolidated Balance Sheet

January 31, 1979 and 1978	1978	1977*
	(In thousands of dollars)	
ASSETS		
Current assets		
Cash	$ 17,500	$ 29,600
Time deposits	35,700	23,000
Trade receivables, less allowance of $500 and $2,800	13,800	15,100
Merchandise inventories	1,244,800	1,077,200
Other current assets	117,200	105,800
	1,429,000	1,250,700
Investment in F. W. Woolworth and Co., Limited	200,300	190,500
Owned properties, less depreciation and amortization	748,900	718,700
Leased properties under capital leases, less amortization	295,200	273,800
Deferred charges and other assets	34,100	30,900
	$2,707,500	$2,464,600
LIABILITIES		
Current liabilities		
Short-term debt—foreign	$ 4,400	$ 4,100
Long-term debt payable within one year	9,300	22,200
Accounts payable	374,500	282,200
Accrued compensation and other liabilities	202,900	176,300
Dividends payable	11,200	11,100
Income taxes	75,900	51,400
Current portion of obligations under capital leases	22,000	19,900
	700,200	567,200
Long-term debt	410,100	423,000
Other liabilities	44,300	29,700
Deferred income taxes	22,600	24,300
Long-term obligations under capital leases	353,500	328,600
Shareholders' equity	1,176,800	1,091,800
	$2,707,500	$2,464,600

*Restated—see notes 1 and 2, page 26

See notes to consolidated financial statements

Summary Financial Data

F. W. Woolworth and Co., Limited
an unconsolidated subsidiary

Assets and liabilities January 31, 1979 and 1978	1978	1977*	1978	1977*
		(In U.S. dollars)		(In pounds sterling)
		(In thousands)		
Current assets	$ 399,600	$ 292,900	£201,700	£153,400
Owned and leased properties, net	488,300	480,700	202,300	196,100
Interest in unconsolidated subsidiary	2,500	4,300	1,200	2,300
Total assets	890,400	777,900	405,200	351,800
Current liabilities	359,900	295,200	180,100	149,400
Long-term debt	19,900	—	10,000	—
Deferred taxes and other credits	76,900	69,000	36,100	31,600
Long-term obligations under capital leases	53,500	52,200	26,900	26,800
Total liabilities	510,200	416,400	253,100	207,800
Shareholders' equity	$ 380,200	$ 361,500	£152,100	£144,000
Revenues and expenses for the fiscal years ended January 31, 1979 and 1978				
Sales	$1,592,000	$1,282,900	£823,400	£724,100
Income before income taxes	$ 103,100	$ 76,000	£ 52,400	£ 47,100
Income taxes	55,000	45,100	28,500	25,400
Net income	$ 48,100	$ 30,900	£ 23,900	£ 21,700
Changes in working capital for the fiscal years ended January 31, 1979 and 1978				
Net income	$ 48,100	$ 30,900	£ 23,900	£ 21,700
Depreciation	18,700	17,700	8,300	7,500
Other	8,700	900	4,100	100
Working capital provided by operations	75,500	49,500	36,300	29,300
Sales of owned properties	7,800	4,200	4,100	2,400
Capitalized lease obligations	1,300	13,600	100	4,200
Increase in (reductions of) long-term debt	19,900	(8,600)	10,000	(5,000)
Cash dividends	(29,500)	(25,900)	(15,800)	(14,900)
Additions to owned and leased properties	(33,000)	(27,100)	(17,100)	(15,400)
Increase in working capital	$ 42,000	$ 5,700	£ 17,600	£ 600
Company's share				
Shareholders' equity at beginning of year	$ 190,500	$ 187,800		
Net income	25,400	16,300		
Dividends	(15,600)	(13,600)		
Shareholders' equity at end of year	$ 200,300	$ 190,500		

*Restated—see notes 1 and 2, page 26

In 1978 sales of the British subsidiary totalled $1,592 million, an increase of 24% from sales of $1,283 million in 1977. In pounds sterling, the British subsidiary's sales rose 14% in 1978.

In pounds sterling, net income of the British subsidiary increased 10% in 1978. The Company's equity in the net income of the British subsidiary rose to $25.4 million in 1978 from $16.3 million in 1977.

* * *

A copy of the British subsidiary's annual report is available by request to the Corporate Secretary's Office, F. W. Woolworth Co., 233 Broadway, New York, New York 10007.

Summary of Significant Accounting Policies

Consolidation—The consolidated financial statements include the accounts of the Company and all subsidiaries except F. W. Woolworth and Co., Limited, of which the Company owns 52.7% of the outstanding capital stock. This investment is carried at the Company's equity in the British subsidiary's net assets and the Company's equity in the net income of the British subsidiary is included in net income, based upon financial statements of the subsidiary adjusted to conform with accounting principles generally accepted in the United States.

Translation of Foreign Currencies—Financial statements of foreign subsidiaries are translated into U.S. dollars as follows: inventories, properties and deferred charges and other assets at exchange rates applicable at the time of acquisition; other assets and liabilities at year-end rates; cost of goods sold and depreciation at rates applicable to the related assets; and revenues and other expense items at average rates. Gains and losses arising as a result of these translation procedures are reflected in income.

Merchandise Inventories—Merchandise in stores and shoe warehouses is valued using the retail method with U.S. dollar equivalents of foreign inventories adjusted, when necessary, to the lower of cost or market. Cost of domestic inventories is determined on the last-in, first-out basis (LIFO) and at January 31, 1979 represented approximately 55% (January 31, 1978—49%) of consolidated inventories. The replacement cost of these inventories at January 31, 1979 exceeded the LIFO valuation by approximately $68,500,000 (January 31, 1978—$43,700,000). Inventories not valued using the retail method are stated at the lower of cost, determined principally on the first-in, first-out basis, or market.

Owned Properties—Owned properties are stated at cost and depreciated or amortized over their estimated useful lives generally using the straight-line method including furniture and fixtures on the group method. For tax purposes, to maximize cash flow, the Company uses an accelerated depreciation method. Reported net income is not affected by this practice because provision is made for the related net deferral of income taxes. United States investment tax credits are applied in reduction of the provision for income taxes in the year the related property is placed in service. Gains or losses realized upon disposition of real estate are taken into income, except that gains on properties sold and leased back are deferred and amortized over the terms of the related leases.

Leased Properties—The Company leases many of its store, distribution center and office facilities as well as some equipment. Certain of the leases constitute capital leases under the provisions of Financial Accounting Standard No. 13 (Accounting for Leases); accordingly, leases so qualifying are included in the accompanying financial statements as assets and obligations (see notes 1 and 2, page 26).

Maintenance and Repairs—The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals and betterments of properties are capitalized and depreciated over the remaining or extended estimated useful lives of the properties.

Store Preopening Costs—Store preopening costs are charged to expense in the year incurred.

Closed Stores Under Lease—The estimated net future costs related to closed stores under lease are accrued in the period in which the store is closed. Such costs represent the present value, calculated at appropriate interest rates, of estimated future expenditures for rents, real estate taxes and other occupancy costs through the expiration dates of the related leases, after deduction of the estimated income from existing subtenant leases.

Net Income Per Share—Net income per common share—primary—is based on the weighted average number of common shares outstanding during the year and assumes exercise of outstanding stock options with the related proceeds being used to acquire stock. Net income per common share—fully diluted—also assumes conversion of outstanding preferred stock and elimination of the related preferred dividend requirement.

Business By Segments—Financial information for various segments of the Company's business is included in the Management's Discussion and Analysis of the Business section on page 16.

Notes to Consolidated Financial Statements

Note 1—Accounting Change

In 1978 the Company changed its method of accounting for leases entered into prior to 1977 in accordance with Financial Accounting Standard No. 13 (Accounting for Leases) and related SEC pronouncements. This Standard requires capitalization of leases which meet certain criteria. A capital lease must be recorded as if the Company had acquired assets through debt financing. The asset is classified on the balance sheet as leased properties under capital leases and the related liability as obligations under capital leases. This results in recording interest expense and depreciation as opposed to the traditional treatment of rents. For presentation in the accompanying financial statements, these occupancy costs are included in costs of sales. Leases entered into in 1977 and 1978 were already accounted for in accordance with these requirements.

The accounting change resulted in a decrease in net income of $4,600,000 ($.16 per share) in 1978. The effect of retroactively applying this accounting change in 1977 and prior years is as follows:

	Net income— Year 1977		Retained earnings— Years through 1976
	(In thousands of dollars except per share amounts)		
	Amount	Per Share	
As previously reported	$91,900	$3.03	$981,400
Effect of capitalizing leases	(6,400)	(.22)	(28,100)
As restated	$85,500	$2.81	$953,300

Note 2—Leases

At January 31, 1979 the Company was obligated under more than 5,500 leases, principally for store properties. Many of the store leases contain renewal options, ranging from five to ten years, and provide for additional rental payments based on a percentage of store sales. Certain leases provide that the Company shall pay for real estate taxes, insurance and other expenses. Management expects that in the normal course of business, expiring leases will be renewed or replaced by other leases.

Rental expense charged to income was comprised of the following:

	1978	1977
	(In thousands of dollars)	
Minimum rentals	**$175,800**	$165,000
Percentage rentals, including $5,400 and $4,400 on leases capitalized	**23,900**	20,700
Sublease income	**(53,900)**	(49,600)
Total	**$145,800**	$136,100

The following is an analysis of leased properties capitalized in accordance with Financial Accounting Standard No. 13 (Accounting for Leases).

	January 31, 1979	January 31, 1978
	(In thousands of dollars)	
Land and buildings	**$460,500**	$432,800
Furniture, fixtures and equipment	**38,800**	31,700
	499,300	464,500
Less accumulated amortization	**204,100**	190,700
Total	**$295,200**	$273,800

Future minimum lease payments due under capital and operating leases are, in thousands of dollars, as follows:

	Capital	Operating	Total
1979	$ 68,100	$ 157,100	$ 225,200
1980	66,700	152,200	218,900
1981	64,200	144,900	209,100
1982	60,900	136,800	197,700
1983	58,600	131,100	189,700
Thereafter	532,300	1,075,100	1,607,400
Total minimum payments	850,800	$1,797,200	$2,648,000
Less estimated real estate taxes, insurance and other expenses	137,700		
Net minimum lease payments	713,100		
Less imputed interest	337,600		
Present value of net minimum lease payments	$375,500		

Minimum lease payments have not been reduced by minimum sublease rentals of $50,500,000 due in the future under noncancelable subleases. They also do not include percentage rentals which may be paid under certain store leases where sales exceed stipulated amounts.

The Company is constructing a $26 million (1.3 million square feet) distribution center in Junction City, Kansas. The funds are being raised by a private placement of industrial revenue bonds through a sale and leaseback arrangement. As at January 31, 1979 assets aggregating

$12,500,000 had been sold and leased back under this arrangement and the ensuing leases capitalized in accordance with FAS No. 13. It is anticipated that the remaining $13,500,000 in assets will be sold and leased back in April 1979. Construction costs through January 31, 1979 aggregated $23,200,000.

Note 3—Owned Properties

	January 31, 1979	January 31, 1978
	(In thousands of dollars)	
Land and buildings	**$338,800**	$324,500
Furniture, fixtures and equipment	**574,600**	539,700
	913,400	864,200
Less accumulated depreciation	**381,500**	349,800
	531,900	514,400
Buildings on leased ground, less amortization	**37,500**	38,900
Alterations to leased and owned buildings, less amortization	**179,500**	165,400
Total	**$748,900**	$718,700

Note 4—Short-Term Borrowings and Compensating Balances

The Company maintains lines of credit with 53 banks which, at January 31, 1979, aggregated $581,200,000. Borrowings under the lines are usually for 90-day periods at prime rates. The banks' commitments ordinarily expire one year from date of agreement and are generally renewed. During the year short-term borrowings under these lines, together with borrowings through the issuance of commercial paper, ranged between $4,400,000 and $412,600,000 (1977—$4,100,000 and $278,800,000). The average aggregate amount of short-term borrowings outstanding during 1978 and the weighted average interest rate thereon, determined on a monthly basis, approximated $245,000,000 (1977—$169,900,000) and 9.27% (1977—7.45%), respectively. The weighted average interest rate on borrowings outstanding at January 31, 1979, 80% of which relates to a foreign subsidiary located in a high interest rate country, approximated 20.28% (January 31, 1978—21.75%).

In accordance with informal agreements with certain banks, the Company maintains average compensating balances during the year. At January 31, 1979 compensating balances aggregated $5,600,000.

Note 5—Long-Term Debt

	January 31, 1979	January 31, 1978
	(In thousands of dollars)	
5% notes and bonds payable to 1991	**$ 28,100**	$ 30,000
7.375% sinking fund debentures payable 1978-1996	**106,300**	112,500
8.25% bank notes payable 1982-1984	**40,000**	40,000
9% sinking fund debentures payable 1985-1999	**125,000**	125,000
10% Canadian sinking fund debentures payable 1984-2003	**45,900**	49,700
Bank loans payable 1979-1985 at interest rates ¼% to ¾% in excess of prime	**5,500**	4,700
3% to 10.5% mortgage and note obligations on real estate payable to 2003	**34,500**	35,100
Other	**24,800**	26,000
Total	**$410,100**	$423,000

Payments due on long-term debt during each of the next five years are: 1979, $9,300,000 (included in current liabilities); 1980, $25,600,000; 1981, $28,500,000; 1982, $32,300,000 and 1983, $26,400,000.

The indenture relating to the 7.375% sinking fund debentures provides that the Company annually pay no less than $6,200,000 into a sinking fund each April 1. The debentures may be redeemed at the option of the Company in whole or in part at annually declining premiums of 4.8% or less.

The indenture relating to the 9% sinking fund debentures provides that the Company annually pay into a sinking fund commencing June 1, 1985 not less than $4,000,000 nor more than $8,000,000 through 1989 and not less than $10,000,000 nor more than $20,000,000 beginning June 1, 1990. The debentures may be redeemed at the option of the Company in whole or in part at annually declining premiums of 6.6% or less.

The indenture relating to the 10% Canadian sinking fund debentures provides that the Company, commencing January 31, 1984, annually pay into a sinking fund $1,100,000 until 1988, $1,600,000 from 1989 to 1993, $2,200,000 from 1994 to 1998 and $2,700,000 from 1999 to 2002. The debentures may be redeemed at the option of the Company in whole or in part at annually declining premiums of 9.6% or less.

Certain of the debt agreements have restrictive provisions which, among other things, require the maintenance of minimum consolidated working capital levels and limit the amount of debt.

Note 6—Shareholders' Equity

	Shares authorized	January 31, 1979 Shares issued	January 31, 1979 Amount (In thousands)	January 31, 1978 Shares issued	January 31, 1978 Amount (In thousands)
Preferred stock—par value $1 per share	7,000,000				
$2.20 Series A Convertible Preferred at stated value $4.73⅓ per share		1,736,084	$ 8,200	1,736,803	$ 8,200
Common stock issued—par value $3⅓ per share	60,000,000	29,365,743	97,900	29,364,723	97,900
Additional paid-in capital			300		300
Retained earnings			1,075,900		992,300
			1,182,300		1,098,700
Common stock in treasury, at cost		(237,928)	(5,500)	(247,998)	(6,900)
Common stock outstanding		29,127,815		29,116,725	
Total shareholders' equity			$1,176,800		$1,091,800

At January 31, 1979 the $2.20 Series A Convertible Preferred Stock had an involuntary liquidation value of $78,100,000. The stock is cumulative, voting and convertible at any time at the rate of 1.42 shares of common stock for each share of preferred stock, subject to anti-dilution provisions. The Company has reserved 2,465,239 shares of common stock for the conversion. During 1978, 719 preferred shares were converted into 1,020 common shares (1977—1,757 preferred into 2,493 common). The preferred stock is currently redeemable at the option of the Company at $46.00 per share; the redemption price reduces $.50 annually until it reaches $45.00 per share in 1981. During 1978, 180,120 shares of treasury stock costing $5,000,000 (1977—170,944 shares at $5,100,000) were sold to employees under the stock purchase plan and 171,900 shares of common stock were acquired for treasury at a cost of $3,700,000 (1977—50,300 shares at $1,000,000). In 1978, 1,850 shares of treasury stock costing $100,000 were sold to employees upon exercise of options under the Company's stock options plans.

Note 7—Stock Option and Purchase Plans

The Company has stock option plans approved by the shareholders in 1970 and 1976 under which options to acquire shares of the Company's common stock are granted to eligible employees at the market price on the date of grant. Options are not exercisable until one year from the date of grant; unexercised options expire five years from date of grant if they are designated as being qualified options, or ten years from date of grant if they are designated as non-qualified options. Authority to grant options under the 1970 plan expired in 1975.

Pertinent stock option information follows:

	1978			1977		
	1976 Plan		1970 Plan	1976 Plan		1970 Plan
	Qualified	Non-qualified		Qualified	Non-qualified	
Shares authorized	700,000			700,000		
Options for shares granted	30,800	32,600	—	26,500	41,275	—
Exercised (at $22.31 per share)	—	—	1,850	—	—	—
Cancelled	32,000	8,675	111,425	—	900	155,550
Outstanding at end of year	193,575	314,150	—	194,775	290,225	113,275
Exercisable at end of year	152,025	260,913	—	84,137	124,475	113,275
Shares reserved for future grants	192,275			215,000		

Options outstanding at January 31, 1979 were at $24.25, $22.19 and $18.75 per share. Options for shares expire as follows: 141,275 in 1981; 21,500 in 1982; 30,800 in 1983; 240,275 in 1986; 41,275 in 1987 and 32,600 in 1988.

The Company also has an employee stock purchase plan under which employees may contribute up to 10% of their salary through payroll deductions to a stock purchase fund from which they are entitled to purchase

shares of common stock of the company at 85% of the market price on a specified date. At January 31, 1979 a total of 1,789,142 shares had been so purchased and 597,423 shares remain available. The present plan expires in 1982.

Common shares sold in connection with the stock option and purchase plans are issued from treasury. Differences between the proceeds received therefor and the cost of the treasury stock are charged or credited to additional paid-in capital or retained earnings, as appropriate.

Note 8—Income Taxes

	1978	1977
	(In thousands of dollars)	
United States		
Current, less investment tax credit of $4,400 and $4,200	**$ 52,700**	$32,100
Deferred	**(2,000)**	(5,400)
State and local income taxes	**6,700**	4,100
Foreign		
Current	**51,300**	42,700
Deferred	**5,000**	2,100
Local income taxes	**9,000**	7,300
Total	**$122,700**	$82,900

Set forth below are the significant differences (expressed as a percentage of pretax income) between the statutory United States federal income tax rate and the effective income tax rate as reflected in the accompanying consolidated statement of income:

	1978	1977
Statutory federal income tax rate	**48.0%**	48.0%
State and local income taxes	**3.6**	3.9
Investment tax credit	**(2.0)**	(2.8)
Foreign income taxed at more (less) than the U.S. statutory rate	**(.3)**	4.4
Other items, net	**4.6**	1.0
	53.9%	54.5%

Provision has been made in the accompanying consolidated statement of income for additional United States and foreign income taxes applicable to dividends received or expected to be received from subsidiaries. In 1978 such provision amounted to $7,700,000 (1977—$8,800,000). The amount of unremitted earnings of foreign subsidiaries, on which no such tax is provided and is considered to have been permanently reinvested in the subsidiaries, aggregated $500,300,000 at January 31, 1979.

The Company's federal income tax returns for the years 1960 through 1973, together with related claims for refund, have been examined by the Internal Revenue Service and substantial adjustments relating principally to the computation of allowable foreign tax credits have been proposed. Management believes that settlement of the alleged deficiencies will have no material adverse effect on the financial position of the Company.

Note 9—Foreign Currency Translation

The effect of fluctuations in foreign exchange rates is shown in the following table.

	1978	1977
	(In thousands of dollars)	
Exchange (losses) from balance sheet translation (FAS No. 8)*	**$ (9,700)**	$ (15,200)
Inventory and fixed asset gains (losses) from income statement translation	**7,400**	(5,500)
Total effect of foreign currency translation	**$ (2,300)**	$ (20,700)

*Includes losses of $3,900 and $1,700 resulting from adjustment of the inventories of foreign subsidiaries after translation to the lower of cost or market.

Note 10—Retirement Plans

The consolidated companies have noncontributory retirement plans for qualified employees. Provisions for earned benefits are made by payments to insurance companies to purchase annuity contracts—by contributions to trust funds—or by balance sheet accruals, and include amortization of prior service costs generally over ten to forty year periods.

The total cost of retirement plans for the year amounted to $23,300,000 (1977—$20,500,000). As of the date of the latest actuarial valuations, January 1, 1978, the costs of vested benefits exceeded accumulated trust funds and balance sheet accruals by approximately $60,900,000. Since that date, the unfunded costs of vested benefits have decreased approximately $1,900,000. Unfunded prior service costs at the valuation date amounted to $65,100,000.

Note 11—Replacement Costs (unaudited)

The Company's annual report on Form 10-K to the Securities and Exchange Commission contains information with respect to estimated replacement cost of inventories and productive capacity and the approximate effect which such estimated replacement cost would have had on the computation of costs of sales and depreciation expense.

Note 12—Quarterly Results (unaudited)

	Sales 1978	Sales 1977	Operating income 1978	Operating income 1977	Income of consolidated companies 1978	Income of consolidated companies 1977	Equity in net income of F.W. Woolworth and Co., Limited 1978	Equity in net income of F.W. Woolworth and Co., Limited 1977	Net income 1978	Net income 1977	Net income per share 1978	Net income per share 1977
	(In millions of dollars except per share amounts)											
*Restated—see notes 1 and 2, page 26												
QUARTER												
First	**$1,226**	$1,148	**$ 29**	$ 24	**$ 6**	$ 3	**$ 5**	$ 4	**$ 11**	$ 7	**$ .34**	$ .21
Second	**1,421**	1,292	**58**	26	**18**	2	**(3)**	—	**15**	2	**.48**	.04
Third	**1,501**	1,362	**67**	53	**20**	15	**1**	(4)	**21**	11	**.69**	.35
Fourth	**1,955**	1,732	**161**	121	**61**	49	**22**	16	**83**	65	**2.83**	2.21
Year	**$6,103**	$5,534	**$315**	$224	**$105**	$ 69	**$ 25**	$ 16	**$130**	$ 85	**$4.34**	$2.81
Fully diluted—year											**$4.12**	$2.71
As previously reported												
QUARTER												
First	**$1,226**	$1,148	**$ 32**	$ 25	**$ 6**	$ 3	**$ 4**	$ 4	**$ 10**	$ 7	**$ .32**	$ .21
Second	**1,421**	1,292	**59**	28	**18**	3	**(2)**	—	**16**	3	**.51**	.08
Third	**1,501**	1,362	**70**	53	**22**	15	**2**	(2)	**24**	13	**.80**	.40
Fourth	**1,955**	1,732	**154**	126	**59**	52	**21**	17	**80**	69	**2.71**	2.34
Year	**$6,103**	$5,534	**$315**	$232	**$105**	$ 73	**$ 25**	$ 19	**$130**	$ 92	**$4.34**	$3.03
Fully diluted—year											**$4.12**	$2.91

Note 13—Subsequent Events (unaudited)

On April 9, 1979, Brascan Limited, a Canadian conglomerate, announced its intention of offering $35 (U.S.) for each common share of the Company's outstanding common stock. On April 11, 1979, the Company's Board of Directors unanimously rejected the proposed tender offer as grossly inadequate and instructed management to take appropriate action to oppose it, having been advised that the proposed offer raised substantial questions of law. On April 12, 1979, the Company filed suit in Federal Court seeking an injunction preventing Brascan Limited and the Canadian Imperial Bank of Commerce from acquiring any of the Company's common or preferred shares, or from exercising control over Woolworth, and other relief.

On April 13, 1979, a class action was filed naming the Company and its Directors as defendants and seeking damages and injunctive relief as a result of the Directors' opposition to the proposed offer of Brascan Limited. The Company and the Directors intend to defend vigorously against the claim asserted therein. Based upon present knowledge and taking into consideration counsel's evaluation of the suit, management believes that the action is without merit and will not result in a material adverse effect on the Company's financial statements.

Market Prices

	1978 High	1978 Low	1978 Close	1977 High	1977 Low	1977 Close
QUARTER	COMMON STOCK					
First	**21**	**17½**	**20½**	26¾	23⅜	23⅜
Second	**21**	**18¼**	**19⅛**	24½	21⅛	21¾
Third	**23**	**17⅛**	**18¼**	21⅞	17⅞	18⅞
Fourth	**21¾**	**17⅝**	**20¼**	20⅜	17½	18
QUARTER	PREFERRED STOCK					
First	**31¼**	**26½**	**30¾**	38⅜	34	34
Second	**32½**	**27⅞**	**28½**	35¾	31¼	31½
Third	**32⅝**	**26¾**	**27⅞**	32⅜	28½	29½
Fourth	**30½**	**27**	**29½**	31½	27½	27½

Dividend Re-Investment Plan

The Company has a dividend re-investment plan whereby quarterly cash dividends on Woolworth common stock can be reinvested in additional shares of the Company's common stock.

A brochure describing the plan and application form can be secured from Citibank, N.A., Box 5232, New York, New York 10043, or from the Corporate Secretary's Office, F. W. Woolworth Co., 233 Broadway, New York, New York 10007.

Transfer Agents

Citibank, N.A., 111 Wall Street, New York, New York 10015
The Northern Trust Company, 50 So. LaSalle St., Chicago, IL 60690

Registrars

Irving Trust Company, One Wall Street, New York, New York 10015
Continental Illinois National Bank and Trust Company of Chicago
231 So. LaSalle Street, Chicago, Illinois 60690

Shareholders' Meeting

The next annual meeting of the shareholders will be at Hensel Hall, Franklin and Marshall College, Lancaster, Pennsylvania at 10 A.M. on Thursday, June 21, 1979. A formal notice of the meeting, together with a proxy statement and form of proxy, will be mailed to each shareholder on or about May 15, 1979 at which time proxies will be requested by management.

FORM 10-K

A copy of the Company's 1978 annual report on Form 10-K to the Securities and Exchange Commission is available without charge by request to the Corporate Secretary's Office, F. W. Woolworth Co., 233 Broadway, New York, New York 10007.

F. W. Woolworth Co., Woolworth Building, 233 Broadway, New York, New York 10007 Telephone (212) 227-1000

Directors

EDWARD F. GIBBONS (1) (2) (5)
Chairman of the Board and Chief Executive Officer

RICHARD L. ANDERSON (2)
Senior Executive Vice-President

LESTER A. BURCHAM (1) (3) (4) (5)
Retired Chairman of the Board

DAVID E. CHENAULT (2)
Vice-President

JOHN L. GUSHMAN (1) (4) (5)
Chairman of the Executive Committee,
Anchor Hocking Corporation

W. ROBERT HARRIS (1) (2)
President and Chief Operating Officer

GEORGE F. JAMES (1) (3)
Director of various companies

FRED M. KIRBY II (1) (3) (4) (5)
Chairman of the Board of:
Alleghany Corporation
(financial service, fabricated steel products
and motor carrier); Investors Diversified Services, Inc.
(financial services); MSL Industries, Inc.
(fabricated steel products)

SEYMOUR H. KNOX III (1) (2) (4) (5)
Vice-President, Kidder, Peabody & Co. Inc.
(member of the New York Stock Exchange, Inc.)

GEORGE H. LESCH (1) (3) (4) (5)
Director of various companies

JOHN W. LYNN (2)
Senior Executive Vice-President

MARGARET P. MacKIMM (1)
Vice-President and Director of Public Relations,
Kraft, Inc. (food processing)

GEORGE W. NELSON (2)
Senior Vice-President

STEPHEN J. OWEN
Chairman of the Board, F. W. Woolworth
and Co., Limited, Great Britain

ANDREW F. PECK (1) (2) (3)
Vice-President and Director,
Kidder, Peabody & Co., Inc.
(member of the New York Stock Exchange, Inc.)

ELLIS W. SMITH (2)
Senior Vice-President

JOHN L. SULLIVAN (2)
Executive Vice-President

GORDON T. WALLIS (1) (3)
Chairman of the Board and Chief Executive Officer,
Irving Trust Company and
Charter New York Corporation
(bank and bank holding company)

Honorary Directors
ROBERT C. KIRKWOOD
JAMES T. LEFTWICH

(1) Member of Policy and Finance Committee
(2) Member of Executive Committee
(3) Member of Audit Committee
(4) Member of Compensation Committee
(5) Member of Board Membership Committee

Corporate Officers

Chairman of the Board
and Chief Executive Officer
EDWARD F. GIBBONS

President and Chief Operating Officer
W. ROBERT HARRIS

Senior Executive Vice-Presidents

RICHARD L. ANDERSON
JOHN W. LYNN

Executive Vice-President
JOHN L. SULLIVAN

Senior Vice-Presidents

LESTER D. HEWELL
Store Operations and Administration

JOHN P. LONG
Corporate Personnel

GEORGE W. NELSON

ELLIS W. SMITH
Finance

Vice-Presidents

ARNOLD S. ANDERSON
General Counsel

WILLIAM G. BAKER, JR.
Expense and Security

DAVID E. CHENAULT
Personnel

HERBERT H. EAMES, JR.
Controller

ROY L. GAROFALO
Investor Relations

HAROLD R. HISER, JR.
Treasurer

ERNEST W. KAUFFMAN
Sales Promotion and Advertising

CHARLES L. KLINE
Merchandising

HARRY E. MOEDINGER
International

LOUIS W. PAYNTER
Restaurant Operations

HAROLD E. SELLS
Store Development

HUBERT P. SMITH
Public Affairs

Secretary and Assistant Treasurer
ROBERT C. HELLER

General Auditor
JAMES F. WELCH

Assistant Vice-Presidents

JERROLD M. EVANS
Merchandising

JOHN W. LARGEN
Distribution

AUBREY C. LEWIS
Corporate Administrative Services

SYLVESTER A. TUOHY
Merchandising

Assistant to Senior
Vice-President for Finance
CLAYTON H. VAN BUREN

Assistant Treasurers

EDWARD G. CAHILL
RICHARD C. LUY
WILLIAM H. PRECHT
GEORGE W. RAMSEY
ROBERT G. ZIMMERMANN

Assistant Secretaries

JOSEPH F. CARROLL
JACQUELINE D. DELAFUENTE
JAMES J. O'NEIL
ROBERT G. ZIMMERMANN

Assistant Controllers

RAYMOND W. PAULSEN
RICHARD D. YOUNG

U.S. Woolworth and Woolco Division—Principal Executives

President
JOHN L. SULLIVAN

General Manager
GEORGE W. NELSON

Regional Vice-Presidents

EDWARD E. CARTER
Northeastern

JOHN W. HARPER
Mid-Atlantic

JOHN E. PARKER
Southeastern

KENNETH E. COLSON
North Central

ROLLAND C. LADD
South Central

JACK R. McNUTT
Pacific

F. W. Woolworth and Co., Limited Great Britain—Principal Executive

Chairman of the Board
STEPHEN J. OWEN

Consolidated Subsidiaries—Principal Executives

F. W. Woolworth Co. Limited, Canada
Vice-Chairman and Managing Director
WILLIAM R. GRAY

President and Chief Operating Officer
FREDERICK R. GREENWOOD

F. W. Woolworth Co., G.m.b.H., Germany
Managing Director
BRUNO WEISS

F. W. Woolworth Co., S.A. de C.V., Mexico
Vice-President and Managing Director
MARTIN L. MERRITT

Woolworth Espanola, S.A.
President and Managing Director
PEDRO A. DE LA MORA

Kinney Shoe Corporation
President
CAMERON I. ANDERSON

The Richman Brothers Company
Chairman of the Board
DONALD J. GERSTENBERGER

President and Chief Executive Officer
HARRY P. GUINTHER

1879 100th ANNIVERSARY 1979

DURING 1979 our Company is celebrating its founding 100 years ago by Frank Winfield Woolworth.

This occasion is an appropriate time to express appreciation to the many thousands of loyal shareholders whose financial support through the years helped Woolworth become a diversified, multibillion dollar, international company with nearly 5,800 retail units.

The Company never has missed quarterly dividend payments since they first were initiated 68 years ago. The common stock dividend has grown from $100,000 in 1912 to almost $41 million in 1978.

As we begin our second century, Woolworth people everywhere are rededicating their efforts to insuring the Company's future growth and prosperity and the continuing support of its loyal shareholders.